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SUBJECT: FINANCIAL SECTOR: INSURANCE SECTOR UPDATE

REF: 06 Cairo 6425

SBU: PLEASE PROTECT ACCORDINGLY

Summary

¶1. (SBU) The Egyptian Insurance Holding Company will move ahead to privatize the insurance sector by combining the main public companies into one large "champion" company that will be privatized in phases. The GOE will continue to own a real estate insurance company, a "national" company that will insure government entities, and a re-insurance company. Recent legislative changes have helped pave the way for privatization of the new champion company by making insurance assets more attractive to potential investors. Privatization of one of a state-owned insurance company is a benchmark of the Financial Sector MOU.

New Restructuring Plans

¶2. (U) Emboffs spoke with Mahmoud Abdallah, Chairman of the Egyptian Insurance Holding Company, who indicated that the GOE has changed direction in its ongoing efforts to privatize the insurance sector. It will now merge three of the major public firms (Misr Insurance, Al-Chark Insurance and Egyptian Reinsurance) into one company that will be privatized. Original plans had been to create new companies dedicated to particular types of insurance lines, and those would each be candidates for sale (reftel). Abdallah indicated that recent press reports that the Holding Company itself would be privatized, were incorrect.

¶3. (U) Abdallah said that plans were proceeding for restructuring, but that the results of the advisory consortium's study of the insurance sector indicated that privatization would be better accomplished by creating a large "champion" company that could be privatized in phases. The first phase would be an IPO of 50% of the shares of the champion company, to get an accurate market price. In the second phase, the holding company would search for a strategic investor to buy at least 20% of the company. The holding company would retain the remaining 30%, but the champion company would have a new corporate board. Abdallah confirmed reports in the media that the holding company hoped a phased-in privatization of the champion company would lessen public resistance to the idea of privatizing the insurance sector.

¶4. (U) Abdallah said that the first phase of privatization, the IPO, might be conducted by the end of 2007. The U.S. - Egypt Financial Sector MOU ties \$25 million in ESF funds to privatization

of one of the insurance companies. Abdallah acknowledged the importance of getting the privatization done soon, but he repeated statements made during the last meeting with econoff (reftel), that the GOE wanted to do the privatization correctly, not just quickly. (Note: the referenced date for the privatization in the MOU - December 31, 2005 - has already passed).

15. (U) As part of the creation of the champion company, all of the real estate assets of each insurance firm have been stripped out and put into a separate company that will remain publicly-owned. The value of the real estate assets stripped out of each company was replaced in cash on the balance sheets of the companies. The GOE will continue to own a "national" insurance firm (The National Insurance Company) that insures government entities, including pensions. Abdallah indicated that the Holding Company has not entirely scrapped the previous plan to strip out types of insurance and create specialized companies. He mentioned medical insurance as one possibility.

16. (SBU) World Bank staff who are supporting this process noted that Minister Mohieddin may only offer 40% of the company in the IPO and then sell the remaining 60% to a strategic investor. The World Bank would prefer that 50% of the company be sold via the IPO. World Bank staff believes that the GOE will use the proceeds of the IPO to continue to clean the portfolio in hopes of making it more attractive to a strategic investor. World Bank staff also note that the insurance policies held by the police and the military which are spread among all the three main companies will be consolidated into National Insurance.

Legislative Changes

17. (U) Recent legislative changes have also helped set the stage for privatization, according to Abdallah. Parliament passed a law requiring Third Party Automotive Liability insurance, something the insurance sector has been advocating for years. This will increase the value of the automobile insurance portfolio of the champion company, adding to the attractiveness of the champion company for potential investors. The insurance sector as a whole has also benefited from recent tax reforms, which eliminated taxes on insurance premia. Abdallah noted that Parliament is currently considering revisions to "Law 10," the law governing the whole insurance sector. The revisions will give the Egyptian Insurance Supervisory Authority (EISA) risk-management supervision over the whole industry and bring the industry into greater compliance with international standards. USAID is assisting EISA in management and supervisory capacity-building through the TAPR-II project, and Abdallah noted that EISA is already "less corrupt and more client-oriented" as a result of this assistance.